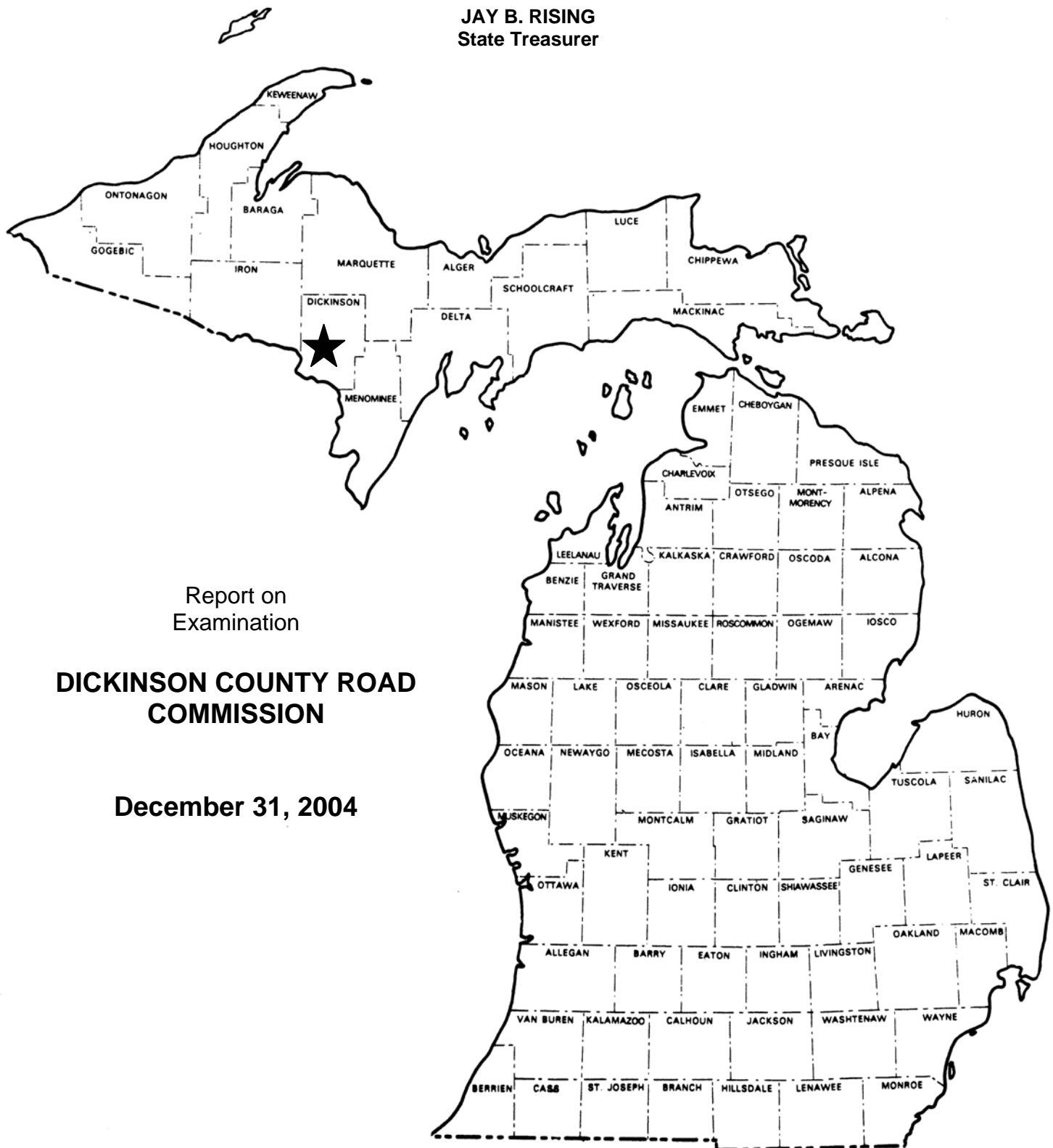


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**DICKINSON COUNTY ROAD  
COMMISSION**

**December 31, 2004**

Local Audit and Finance Division  
Bureau of Local Government Services

**DICKINSON COUNTY ROAD COMMISSION**  
**BOARD OF COUNTY ROAD COMMISSIONERS**

Allan Bilski  
Chairperson

Charles D. Erickson  
Vice Chairperson

James G. Harris  
Member

Tim Hammill  
Managing Director

Sandra Lindholm  
Director of Finance

Dave Pajula  
Engineer

COUNTY POPULATION--2000  
27,472

STATE EQUALIZED VALUATION--2004  
\$894,033,600



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

May 26, 2005

Dickinson County Road Commission  
Board of County Road Commissioners  
1107 South Milwaukee Avenue  
P.O. Box 519  
Iron Mountain, Michigan 49801

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities of the Dickinson County Road Commission, a component unit of Dickinson County, Michigan, as of and for the year ended December 31, 2004, which comprises the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dickinson County Road Commission as of December 31, 2004 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 8 and the budget comparison information in Exhibits G and H are not part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 2005 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants.

As discussed in Note O of the basic financial statements, the Dickinson County Road Commission has adopted Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*; Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Dickinson County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# DICKINSON COUNTY ROAD COMMISSION

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# **DICKINSON COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Dickinson County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2004. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### ***Overview of the Financial Statements***

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

### **Reporting the Road Commission as a Whole**

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

**DICKINSON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

***Report of the Road Commission's Major Fund***

The fund financial statements begin on page 9 and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

***The Road Commission as a Whole***

This is the first year of implementation for GASB No. 34 and as such a comparative analysis between years could not be presented. The net assets are summarized below.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net or related debt) are considered restricted.

The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

**DICKINSON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net assets as of the year ended December 31, 2004 are as follows:

	12/31/04 Governmental Activities
	<u>                    </u>
Current and Other Assets	\$ 1,102,644
Net Capital Assets	<u>29,302,852</u>
 Total Assets	 <u>30,405,496</u>
 Current Liabilities	 164,132
Long-Term Liabilities	<u>1,496,203</u>
 Total Liabilities	 <u>1,660,335</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	28,299,847
Restricted	<u>445,314</u>
 Total Net Assets	 <u><u>\$ 28,745,161</u></u>

The net assets increased by \$1,214,165 from the prior year. The invested in capital assets, net of related debt, increased by \$1,392,309 and the restricted net assets decreased by \$178,144.



**DICKINSON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

A summary of changes in net assets for the year ended December 31, 2004 follows:

	<u>2004</u>
Program Revenue	
Federal Grants	\$ 546,356
State Grants	3,631,475
Contributions From Local Units	427,165
Charges for Services	717,111
Investment Earnings	12,333
General Revenue	
Gain on Equipment Disposal	<u>1,690</u>
Total Revenue	<u>5,336,130</u>
Expenses	
Primary Road Maintenance	721,931
Local Road Maintenance	1,020,749
State Trunkline Maintenance	590,041
Non-Motorized Trail	3,363
Private Driveway Plowing	8,709
Net Equipment Expense	(37,280)
Net Administrative Expense	309,086
Infrastructure Depreciation	1,447,659
Compensated Absences	2,942
Interest Expense	<u>54,765</u>
Total Expenses	<u>4,121,965</u>
Increase in Net Assets	<u><u>\$ 1,214,165</u></u>

***The Road Commission's Fund***

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2004, the fund balance of the General Operations Fund decreased \$175,202 as compared to an increase of \$186,568 in the fund balance for the year ended December 31, 2003. Total operating revenues were \$5,336,130, an increase of \$661,309 as compared to last year. This change in revenues resulted primarily from an increase of MTF of \$295,315 as well as an increase in Federal Grants of \$283,081 and State Trunkline audit refund of \$74,355. Total expenditures were \$5,566,307, an increase of \$528,873 as compared to last year. This change in expenditures is due primarily to an increase in Primary Heavy Maintenance of \$494,214, Heavy Maintenance for Local Road Structure of \$495,288 and a decrease of \$457,429 in Capital Outlay.

**DICKINSON COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

A summary of changes in the Operating Fund is as follows:

	12/31/03 Operating Fund	12/31/04 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Federal Aid	\$ 263,275	\$ 546,356	\$ 283,081	107.52%
State Aid	3,361,179	3,631,475	270,296	8.04%
Contributions From Local Units	458,578	427,165	(31,413)	-6.85%
Charges for Services	546,894	676,051	129,157	23.62%
Interest and Rents	4,315	12,333	8,018	185.82%
Other Revenue	40,580	42,750	2,170	5.35%
Total Revenues	<u>4,674,821</u>	<u>5,336,130</u>	<u>661,309</u>	<u>14.15%</u>
Expenditures				
Public Works	4,092,425	5,011,201	918,776	22.45%
Capital Outlay	539,649	82,220	(457,429)	-84.76%
Debt Service	405,360	472,886	67,526	16.66%
Total Expenditures	<u>5,037,434</u>	<u>5,566,307</u>	<u>528,873</u>	<u>10.50%</u>
Excess of Revenues Over (Under) Expenditures	<u>(362,613)</u>	<u>(230,177)</u>	<u>132,436</u>	<u>-36.52%</u>
Other Financing Sources				
County Appropriation	35,000	-	(35,000)	-100.00%
Proceeds From Lease Purchase	514,181	54,975	(459,206)	-89.31%
Total Other Financing Sources	<u>549,181</u>	<u>54,975</u>	<u>(494,206)</u>	<u>-89.99%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>186,568</u>	<u>(175,202)</u>	<u>(361,770)</u>	<u>-193.91%</u>
Fund Balance--Beginning of Year	<u>768,667</u>	<u>955,235</u>	<u>186,568</u>	<u>24.27%</u>
Fund Balance--End of Year	<u>\$ 955,235</u>	<u>\$ 780,033</u>	<u>\$ (175,202)</u>	<u>-18.34%</u>

**DICKINSON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Budgetary Highlights***

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The original revenue budget for 2004 was \$5,573,514, which was \$250,765 more than the final amended budget and \$182,409 more than the actual revenue received for the year. This was due, in large part, to the Road Commission receiving less funds from certain Federal aid projects during the year than originally planned.

The Road Commission's original expenditures were projected at \$5,527,243, which was \$139,466 less than the final amended budget and \$39,064 less than the actual expenditures. The final amended budget was \$5,666,709, which was resulted in actual expenditures of \$5,566,307 being less than budgeted amount by \$100,402. This was primarily due to the Road Commission having more costs associated with maintenance and projects on the local and primary county road system.

**DICKINSON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Capital Assets*

As of December 31, 2004, the Road Commission had \$29,302,852 invested in net capital assets (which includes retroactively reported infrastructure assets (assets acquired after 1980) as permitted by GASB No. 34) as follows:

	<u>12/31/03</u>	<u>12/31/04</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 205,915	\$ 205,915	0.00%
Infrastructure--Land and Improvements	<u>10,315,770</u>	<u>10,944,484</u>	<u>6.09%</u>
Subtotal	<u>10,521,685</u>	<u>11,150,399</u>	<u>5.98%</u>
Capital Assets Being Depreciated			
Buildings	1,499,423	1,499,423	0.00%
Road Equipment	5,401,480	5,433,434	0.59%
Shop Equipment	151,943	169,620	11.63%
Office Equipment	76,589	76,589	0.00%
Engineer's Equipment	51,984	53,347	2.62%
Infrastructure--Bridges	2,647,155	3,071,367	16.03%
Infrastructure--Roads	<u>28,314,750</u>	<u>30,040,495</u>	<u>5.74%</u>
Subtotal	<u>38,143,324</u>	<u>40,344,275</u>	<u>5.77%</u>
Total Capital Assets	48,665,009	51,494,674	5.81%
Total Accumulated Depreciation	<u>(20,391,319)</u>	<u>(22,191,822)</u>	<u>8.83%</u>
Total Net Capital Assets	<u><u>\$28,273,690</u></u>	<u><u>\$29,302,852</u></u>	<u><u>3.64%</u></u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,860,891 as follows:

Construction and Reconstruction of Bridges	\$ 424,212
Various Resurfacing Projects and Related Land/Right-of-Way	2,354,459
Road Equipment	63,180
Shop Equipment	17,677
Engineers' Equipment	<u>1,363</u>
Total Additions	<u><u>\$ 2,860,891</u></u>

The infrastructure is financed through Federal, State and local contributions. There were two new installment purchase agreements entered into during 2004; all the equipment acquired was with Road Commission funds. During 2004, the Road Commission traded in and/or disposed of equipment with a purchase amount of \$31,226, related depreciation of \$27,794, and net book value of \$3,432.

**DICKINSON COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Debt*

The Road Commission currently has long-term debt in the amount of \$1,697,929, a net decrease of \$360,205 from the prior year. The long-term debt represents Michigan Transportation Fund Notes Payable, bonds, ten lease-purchase agreements and compensated absences payable at December 31, 2004.

More detailed information about the Road Commission's long-term liabilities for vested employee benefits is presented in Note H to the financial statements.

*Economic Factors and Next Year's Budget*

The Board of County Road Commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 56% of its revenue from the fuel tax collected in 2004. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed. The Road Commission received approximately 8% of its revenues from township contributions during 2004. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2004, the Road Commission overspent available funds for local road projects due to some unexpected cost overruns on three local road projects, which resulted in a deficit position in the County Road Commission Fund Balance. A deficit elimination plan was submitted and accepted by the Michigan Department of Treasury. In order to eliminate the deficit, the Road Commission will be closely monitoring the activity in the Local Road Fund and possibly requesting higher contributions from the local units.

During 2005 we expect to receive less money in Federal and State aid for road projects. The above items were considered when adopting the budget for 2005. The amount budgeted for revenues for 2005 is projected at \$4,883,236 and expenditures were budgeted for \$4,944,852.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Dickinson County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Dickinson County.

*Contacting the Road Commission's Financial Management*

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Dickinson County Road Commission's administrative office at: P.O. Box 519, Iron Mountain, MI, 49801.

**DICKINSON COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**December 31, 2004**

**EXHIBIT A**

**ASSETS**

Cash	\$ 34,833
Accounts Receivable	
State--Trunkline Maintenance	88,826
Michigan Transportation Fund	458,890
State--Other	65,569
Due From Other Units of Government	26,021
Due on County Road Agreements	34,577
Due From County--Primary Government	7,940
Inventories	
Road Materials	321,242
Equipment Parts and Materials	64,746
Capital Assets (Net of Accumulated Depreciation)	<u>29,302,852</u>
Total Assets	<u>30,405,496</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	43,263
Due to State of Michigan	59,293
Accrued Liabilities	30,011
Driveway Snow Plowing Deposits	31,565
Noncurrent Liabilities	
Advance From State	158,479
Notes Payable--Due in One Year	120,000
Notes Payable--Due in More Than One Year	120,000
Installment Purchase Agreements Payable--Due in One Year	252,873
Installment Purchase Agreements Payable--Due in More Than One Year	510,132
Vested Employee Benefits Payable	<u>334,719</u>
Total Liabilities	<u>1,660,335</u>

**NET ASSETS**

Investment in Capital Fixed Assets	
Net of Related Debt	28,299,847
Restricted for Primary Roads	<u>445,314</u>
Total Net Assets	<u><u>\$ 28,745,161</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**DICKINSON COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2004**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 721,931
Local Road Maintenance	1,020,749
State Trunkline Maintenance	590,041
Non-Motorized Trail	3,363
Private Driveway Plowing	8,709
Net Equipment Expense	(37,280)
Net Administrative Expense	309,086
Infrastructure Depreciation	1,447,659
Compensated Absences	2,942
Interest Expense	54,765
	<hr/>
Total Program Expenses	4,121,965
	<hr/>
Program Revenue	
Charges for Services	
Charges for Services	717,111
Operating Grants and Contributions	
Michigan Transportation Funds	3,002,819
Investment Earnings	12,333
Capital Grants and Contributions	
Federal Grants	546,356
State Grants	628,656
Contributions	427,165
	<hr/>
Total Program Revenue	5,334,440
	<hr/>
Net Program Revenue	1,212,475
	<hr/>
General Revenue	
Gain on Equipment Disposal	1,690
	<hr/>
Total General Revenues and Transfers In	1,690
	<hr/>
Change in Net Assets	1,214,165
	<hr/>
Net Assets	
Beginning of Year	27,530,996
	<hr/>
End of Year	\$28,745,161
	<hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**DICKINSON COUNTY ROAD COMMISSION**  
**COMBINED BALANCE SHEET**  
**December 31, 2004**

**EXHIBIT C**

**GOVERNMENTAL  
FUND TYPE**

General  
Operating  
Fund

**ASSETS**

Cash	\$ 34,833
Due From State	
State Trunkline	88,826
Michigan Transportation Funds	458,890
Other Projects	65,569
Due From Cities	26,021
Due From Townships	34,577
Due From Primary Government	7,940
Inventories	
Road Materials	321,242
Equipment Parts and Materials	64,746
Total Assets	<u>\$1,102,644</u>

**LIABILITIES AND FUND EQUITY**

Liabilities	
Accounts Payable	\$ 43,263
Accrued Liabilities	30,011
Due to State	59,293
Advances	
Driveway Plowing	31,565
State	158,479
Total Liabilities	<u>322,611</u>
Fund Equities	
Fund Balance	
Reserved for Long-Term Receivables	26,020
Unreserved and Undesignated	754,013
Total Fund Equities	<u>780,033</u>
Total Liabilities and Fund Equities	<u>\$1,102,644</u>

**The Notes to Financial Statements are an integral part of this statement.**



**DICKINSON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
For the Year Ended December 31, 2004**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 780,033
---------------------------------	------------

Amounts reported for governmental activities in the Statement of Net Assets are  
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,302,852
--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(1,337,724)</u>
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Net Assets of Governmental Activities	<u><u>\$28,745,161</u></u>
---------------------------------------	----------------------------

**The Notes to Financial Statements are an integral part of this statement.**

**DICKINSON COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Year Ended December 31, 2004**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 546,356
State Grants	3,631,475
Contributions From Local Units	427,165
Charges for Services	676,051
Interest and Rents	12,333
Other Revenue	<u>42,750</u>
Total Revenues	<u>5,336,130</u>
Expenditures	
Public Works	5,395,271
Capital Outlay--Net	(301,850)
Debt Service	<u>472,886</u>
Total Expenditures	<u>5,566,307</u>
Excess of Revenues Over (Under) Expenditures	<u>(230,177)</u>
Other Financing Sources	
Proceeds From Lease Purchase	<u>54,975</u>
Total Other Financing Sources	<u>54,975</u>
Excess of Revenues and Other Financing Sources Over Expenditures	(175,202)
Fund Balance--January 1, 2004	<u>955,235</u>
Fund Balance--December 31, 2004	<u><u>\$ 780,033</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**DICKINSON COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2004**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds	\$ (175,202)
--	--------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,029,163
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	363,146
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	(2,942)
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Change in Net Assets of Governmental Activities	<u><u>\$ 1,214,165</u></u>
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**The Notes to Financial Statements are an integral part of this statement.**

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--REPORTING ENTITY

The Dickinson County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners; and property taxes would be levied under the taxing authority of the county, as approved by the county electors. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Dickinson County Road Commission, a discretely presented component unit of Dickinson County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Dickinson County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

#### Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Dickinson County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Dickinson County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission has also retroactively capitalized the major infrastructure assets, as permitted by GASB Statement No. 34, which is included in the beginning balance of the net assets and capital asset.

#### Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

### NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the county road fund. Pursuant to the act, the Road Commission's chief fiscal officer (office manager) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and, subsequently, adopts an operating budget. The board has authorized the chief fiscal officer to amend the Road Commission's budget when necessary, without increasing the overall budget, by transferring funds between expenditure cost centers. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

#### Fund Deficits

The Road Commission has an accumulated deficit of \$44,803 in the County Road Commission fund balance at December 31, 2004.

Public Act 140 of 1971, as amended, requires the Road Commission to file a deficit elimination plan with the Michigan Department of Treasury within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. The Road Commission has submitted a deficit elimination plan to the Michigan Department of Treasury, which was been accepted.

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--BALANCE SHEET CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county treasurer has designated five banks for the deposit of Road Commission funds. The Road Commission's deposits are in accordance with statutory authority. The Road Commission has adopted an investment policy in compliance with the provisions of Public Act 196 of 1997, which includes all of the above investments.

Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the Road Commission's cash deposits, is as follows:

<u>Deposits and Imprest Cash</u>	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Insured (FDIC)	\$ 34,633	\$ 132,655
Imprest Cash	200	
Total Deposits and Imprest Cash	<u>\$ 34,833</u>	<u>\$ 132,655</u>

The Road Commission's insured deposit amount is by virtue of the County Road Fund meeting certain specified criteria under FDIC regulations.



## DICKINSON COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE E--DEFERRED COMPENSATION PLAN

Some employees of the Dickinson County Road Commission are participants in a deferred compensation plan offered by the Dickinson County Board of Commissioners. The plan, created in accordance with the Internal Revenue Code, Section 457, is available to all Dickinson County employees and elected officials, and permits them to defer a portion of their current salary until the employee's termination, retirement, death or unforeseeable emergency.

The plan is administered by the National Association of Counties (NACo) through the Public Employees' Benefit Services Corporation (PEBSCO). NACo, as plan administrator, agrees to hold harmless and indemnify the county, its appointed and elected officers and participating employees from any loss resulting from NACo or its agent's failure to perform its duties and services pursuant to the NACo Program.

Effective January 1, 1997, the assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters.

#### NOTE F--ADVANCE (DUE) FROM PRIMARY GOVERNMENT

At December 31, 2003, there was a balance of \$3,338 due from the county (primary government). The agreement between the county and the Road Commission is that the county would advance money to the Road Commission to be used for roadwork done on the county parks or other county property. During 2004, the Road Commission completed projects that exceeded the advances made during the year and resulted in a larger amount due to the Road Commission at December 31, 2004. The county total accumulated advance was \$35,500 and was restricted to work performed as designated by the county, for the county's properties, which totaled \$40,102 during 2004. At December 31, 2004, the county owed the Road Commission \$7,940, representing an amount overspent on county projects and was recorded by the Road Commission as an amount Due from County (primary government).

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--CAPITAL ASSETS

Following is a summary of the changes in capital assets:

	Account Balances 01/01/04	Additions	Deductions	Account Balances 12/31/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 205,915			\$ 205,915
Infrastructure Land Improvements	10,315,770	\$ 628,714		10,944,484
Subtotal	10,521,685	\$ 628,714	\$ -	11,150,399
Capital Assets Being Depreciated				
Buildings	1,499,423			1,499,423
Road Equipment	5,401,480	63,180	31,226	5,433,434
Shop Equipment	151,943	17,677		169,620
Office Equipment	76,589			76,589
Engineers' Equipment	51,984	1,363		53,347
Infrastructure--Bridges	2,647,155	424,212		3,071,367
Infrastructure--Roads	28,314,750	1,725,745		30,040,495
Total	38,143,324	2,232,177	31,226	40,344,275
Less Accumulated Depreciation				
Buildings	436,952	39,160		476,112
Road Equipment	4,315,429	330,943	27,794	4,618,578
Shop Equipment	81,459	12,419		93,878
Office Equipment	71,588	2,131		73,719
Engineers' Equipment	47,785	1,686		49,471
Infrastructure--Bridges	737,318	68,851		806,169
Infrastructure--Roads	14,700,788	1,373,107		16,073,895
Total	20,391,319	1,828,297	27,794	22,191,822
Net Capital Assets Being Depreciated	17,752,005	2,232,177	1,831,729	18,152,453
Total Net Capital Assets	\$ 28,273,690	\$ 2,860,891	\$ 1,831,729	\$ 29,302,852

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 330,943
Indirect Equipment	45,878
Net Administrative Expense	
Office Equipment	3,817
Infrastructure Depreciation	<u>1,447,659</u>
Total Depreciation Expense	<u>\$ 1,828,297</u>

### NOTE H--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	Balance 01/01/04	Additions (Reductions)	Balance 12/31/04	Due in One Year
Equipment Lease--Purchase Agreements				
Caterpillar Financial Services				
June 2000 Lease	\$ 53,583	\$ (37,332)	\$ 16,251	\$ 16,251
September 2002--Lease	53,317	(13,681)	39,636	14,310
September 2002--Lease	137,953	(34,546)	103,407	36,133
September 2002--Lease	159,328	(39,899)	119,429	41,732
November 2003--Lease	204,718	(39,177)	165,541	40,772
Deere Credit Services				
December 1999 Lease	31,675	(31,675)	-	
May 2002 Lease	98,493	(29,520)	68,973	26,190
Diamler Chrysler Services North America LLC				
May 2003--Lease	123,139	(26,545)	96,594	27,633
June 2003--Lease	143,945	(30,392)	113,553	31,638
First National Bank of Norway		24,214		
February 2001--Lease		(6,398)	17,816	8,005
		30,761		
February 2001--Lease		(8,957)	21,804	10,209
Michigan Transportation Fund Notes Payable	360,000	(120,000)	240,000	120,000
Vested Employee Benefits				
Vacation Benefits	76,182	3,391	79,573	
Sick Leave Benefits	255,596	(449)	255,147	
Totals	<u>\$1,697,929</u>	<u>\$ (360,205)</u>	<u>\$1,337,724</u>	<u>\$372,873</u>

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Equipment Lease-Purchase and Loan Agreements

The annual requirements to meet the monthly installment payments on various pieces of equipment acquired by lease-purchase or loan agreements are as follows:

#### Caterpillar Leasing

##### June 2000 Lease-Purchase--143H Caterpillar

Terms: 60 monthly installments of \$3,300 at 5.9% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
06/00	\$ 169,900	2005	<u>\$16,251</u>	<u>\$252</u>	<u>\$ 16,503</u>
			<u>\$16,251</u>	<u>\$252</u>	<u>\$ 16,503</u>

##### September 2002 Lease-Purchase--Caterpillar D3 Dozer

Terms: 60 monthly installments of \$1,317 at 4.5% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
09/02	\$ 70,629	2005	\$14,310	\$ 1,491	\$ 15,801
		2006	14,967	833	15,800
		2007	<u>10,359</u>	<u>175</u>	<u>10,534</u>
			<u>\$39,636</u>	<u>\$ 2,499</u>	<u>\$42,135</u>

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### September 2002 Lease-Purchase--Caterpillar D6Dozer

Terms: 60 monthly installments of \$3,337 at 4.5% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
09/02	\$ 179,009	2005	\$ 36,133	\$3,914	\$ 40,047
		2006	37,793	2,254	40,047
		2007	<u>29,481</u>	<u>556</u>	<u>30,037</u>
			<u>\$103,407</u>	<u>\$6,724</u>	<u>\$110,131</u>

#### September 2002 Lease-Purchase--Caterpillar 143H Motor Grader

Terms: 60 monthly installments of \$3,854 at 4.5% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
09/02	\$ 206,746	2005	\$ 41,731	\$4,521	\$ 46,252
		2006	43,649	2,603	46,252
		2007	<u>34,049</u>	<u>641</u>	<u>34,690</u>
			<u>\$119,429</u>	<u>\$7,765</u>	<u>\$127,194</u>

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--GENERAL LONG-TERM DEBT (Continued)

November 2003 Lease-Purchase--Caterpillar 972G Wheel Loader

Terms: 60 monthly installments of \$3,888 at 3.86% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
11/03	\$211,800	2005	\$ 40,772	\$ 5,880	\$ 46,652
		2006	42,433	4,219	46,652
		2007	44,162	2,490	46,652
		2008	<u>38,174</u>	<u>704</u>	<u>38,878</u>
			<u>\$165,541</u>	<u>\$13,293</u>	<u>\$178,834</u>

### Deere Credit Leasing

May 2002 Lease-Purchase--John Deere 772CH Motor Grader

Terms: 60 monthly installments of \$2,607 at 4.75% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
05/02	\$ 139,000	2005	\$ 26,190	\$ 2,539	\$ 28,729
		2006	29,900	1,387	31,287
		2007	<u>12,883</u>	<u>153</u>	<u>13,036</u>
			<u>\$ 68,973</u>	<u>\$ 4,079</u>	<u>\$ 73,052</u>

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Daimler Chrysler Services

May 2003 Lease-Purchase--Quad Axle Dump Truck

Terms: 60 monthly installments of \$2,584 at 4.02% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
05/03	\$140,723	2005	\$ 27,633	\$ 4,091	\$ 31,724
		2006	28,765	2,771	31,536
		2007	29,944	1,387	31,331
		2008	<u>10,252</u>	<u>153</u>	<u>10,405</u>
			<u>\$96,594</u>	<u>\$ 8,402</u>	<u>\$104,996</u>

May 2003 Lease-Purchase--Quad Axle Dump Truck

Terms: 60 monthly installments of \$2,969 at 4.02% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
06/03	\$161,658	2005	\$ 31,638	\$ 3,989	\$ 35,627
		2006	32,934	2,693	35,627
		2007	34,284	1,343	35,627
		2008	<u>14,697</u>	<u>148</u>	<u>14,845</u>
			<u>\$113,553</u>	<u>\$ 8,173</u>	<u>\$121,726</u>

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### First National Bank of Norway

February 2004 Lease-Purchase--Chevrolet Silverado ¾ ton Truck

Terms: 36 monthly installments of \$721 at 4.5% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
02/04	\$24,214	2005	\$ 8,004	\$647	\$ 8,651
		2006	8,378	273	8,651
		2007	1,434	8	1,442
			<u>\$17,816</u>	<u>\$928</u>	<u>\$18,744</u>

February 2004 Lease-Purchase--Chevrolet Tahoe

Terms: 36 monthly installments of \$916 at 4.5% interest, secured by the equipment

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
02/04	\$30,761	2005	\$10,209	\$ 781	\$10,990
		2006	10,683	307	10,990
		2007	912	4	916
			<u>\$21,804</u>	<u>\$ 1,092</u>	<u>\$22,896</u>



# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--LONG-TERM DEBT (Continued)

#### Michigan Transportation Fund Notes Payable Series 2001

During 2001, Dickinson County Road Commission entered into Act 143 Michigan Transportation Fund Revenue Notes Payable for the purpose of constructing a garage in the amount of \$600,000 with interest ranging from 3.8% to 5.125%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/04</u>	<u>Interest Payable if Held to Maturity</u>	<u>Total</u>
04/03/01	\$ 600,000	2005	\$ 120,000	\$ 9,480	\$129,480
		2006	<u>120,000</u>	<u>4,800</u>	<u>124,800</u>
			<u>\$ 240,000</u>	<u>\$ 14,280</u>	<u>\$254,280</u>

#### Vested Employee Vacation Benefits

Vacation benefits are earned monthly at various rates based on length of service. Each hourly (union) employee may accumulate a maximum of 240 hours of vacation time. Any authorized accumulation over the maximum 240 hours will be paid to an employee as a lump sum.

#### Employee Sick Leave Benefits

Each hourly (union) employee will be granted sick leave at the rate of 8 hours for each month of employment and shall be able to accumulate sick leave to a maximum 600 hours. Salaried employees may earn sick leave with no accumulation limit.

Accumulated sick leave benefits are paid in accordance with the following provisions:

1. Voluntary Termination--Salaried employees will be paid 50% of their accumulated sick leave, and hourly (union) employees will not be entitled to any payment for unused sick days.
2. Retirement or Death--For those hired prior to January 1, 1995, salaried and hourly (union) employees will be paid 100% of their accumulated sick leave, not to exceed 600 hours upon retirement, or in the case of death to the employee's beneficiary. For employees hired after January 1, 1995, they will be paid 100% of their accumulated sick leave, not to exceed 400 hours upon retirement, or in the case of death to the employee's beneficiary.

## DICKINSON COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE I--EMPLOYEES' RETIREMENT SYSTEM

##### Plan Description

##### Description of Plan and Plan Assets

The Dickinson County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way Street, Lansing, Michigan 48917.

##### Funding Policy

Members of the employee's group do not contribute any annual compensation. One member of the Road Commissioner's group contributes 3% of the first \$4,200 and 5% of his annual compensation in excess of \$4,200. The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy. The Road Commission is required to contribute at an actuarially determined rate; the rate for the year ended December 31, 2003 was 11.22% and 5.65% of covered payroll for the General-Other and General-Road Commission Groups.

# DICKINSON COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE I--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Annual Pension Cost

During the calendar year ended December 31, 2003, the Road Commission's contributions totaling \$168,652 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2001. The employee contribution of \$95 was also paid by one employee, in accordance with the contribution requirements, and an additional \$362 payment was also made during 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 169,661	100%	\$0
2002	160,164	100%	\$0
2003	168,652	100%	\$0

#### Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/01	\$ 4,822,459	\$ 5,659,829	\$ 837,370	85%	\$ 1,437,221	58%
12/31/02	4,902,390	6,092,424	1,190,034	80%	1,418,046	84%
12/31/03	5,164,685	6,550,361	1,385,676	79%	1,317,501	105%

## DICKINSON COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE J--POST-EMPLOYMENT BENEFITS

##### Health Care Insurance Benefits

In addition to the pension benefits described in Note I, the Dickinson County Road Commission provides post-employment health care insurance benefits to specified retired employees and/or their spouse. The benefits are provided in accordance with Article 10, Section 1, of the union agreement, which includes the following provision:

"A retiree plan which excludes the Drug Rider will be provided to the retiree and his/her dependents for three (3) years following retirement. After three (3) years, the employer will pay towards the retiree's premium only, in the amount equivalent to the complimentary plan for five (5) years."

In accordance with the working agreement of salaried employees with the Dickinson County Road Commission, salaried employees upon retirement are entitled to the same plan that they had while employed, except for the Drug Rider, until death and spouse to age 70, with the total cost of the plan paid by the Road Commission.

The Road Commission's policy is to finance this benefit on a pay-as-you-go basis. During 2004, 12 retirees were eligible for this benefit at a total cost of approximately \$110,423.

##### Life Insurance

Salaried employees, upon retirement, are entitled to \$5,000 of life insurance with the premium paid by the Road Commission.

The Road Commission's policy is to finance this benefit on a pay-as-you-go basis. During 2004, 5 retirees were eligible for this benefit at a total cost of approximately \$240.

#### NOTE K--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

## DICKINSON COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the state. The Dickinson County Road Commission became a member of the Pool for liability and property coverage in 1991 and for workers' compensation coverage in 1993.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

#### NOTE L--GUST K. NEWBERG CHARITABLE TRUSTS

The Dickinson County Road Commission has been named as a 15% beneficiary in the \$5,000,000 "Gust K. Newberg Charitable Trust." The trust agreement provides for named trustees to hold, invest and reinvest the corpus of the trust and collect and receive the income, thereof, and distribute the net income, thereof, to the beneficiaries at least annually.

In 2004, the Road Commission received four quarterly distributions of trust income for the period September 1, 2003 to October 31, 2004. The Road Commission's policy is to record revenues from the trust on the cash basis, which was \$32,710 during 2004.

In addition to the above trust provisions, Mr. Newberg also provided that upon the death of his wife, Penny M. Newberg, there should be paid out of the trust, created for Mrs. Newberg, a sum of \$500,000 to the Dickinson County Road Commission.

#### NOTE M--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2004, the Federal aid received and expended by the Road Commission was \$365,888 for contracted projects and \$180,466 for two (2) negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission. Since the negotiated expenditures were under \$500,000, a single audit was not required.

## DICKINSON COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE N--STATE TRUNKLINE MAINTENANCE REVENUE

The \$74,355 difference between the State trunkline maintenance revenues of \$656,154 and expenditures of \$581,799 is primarily due to the Michigan Department of Transportation (MDOT) trunkline maintenance settlement agreement regarding liability insurance on the State Trunkline audits from 1996 through 2002 in the amount of \$62,210. There was also an unaudited net refund for insurance assessments during the period of 2003/2004 for \$10,933 and \$1,212 adjustment to properly treat the Michigan Catastrophic Claims Association and Michigan Assigned Claims Facility costs.

#### NOTE O--CHANGE IN ACCOUNTING PRINCIPLE

Effective December 1, 2004, the Road Commission implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the accrual basis of accounting. Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus, which established new financial reporting standards for State and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating contributed capital accounts and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations. Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement No. 34.

**DICKINSON COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
For the Year Ended December 31, 2004**

**EXHIBIT G**

	Original Amended Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Federal Grants				
Surface Transportation Program	\$ 130,900	\$ 130,900	\$ 84,740	\$ (46,160)
Highway Bridge Replacement	372,335	365,610	365,610	-
Economic Development D Funds	115,000	115,000	95,728	(19,272)
High Priority	-		278	278
Safety	166,400			-
Enhancement	82,700			-
State Grants				
Michigan Transportation				
Engineering	10,000	10,000	10,000	
Primary Road	1,949,000	2,067,410	2,070,323	2,913
Local Road	734,000	739,188	747,738	8,550
Primary Urban Road	75,000	106,959	104,611	(2,348)
Local Urban Road	49,000	55,445	56,443	998
Snow Removal	13,200	13,704	13,704	-
Highway Bridge Replacement	69,815	68,540	68,552	12
Economic Development				
Rural Primary (D)	52,581	52,581	45,049	(7,532)
Forest Funds (E)	122,902	122,900	122,901	1
Urban Area (F)	375,000	365,569	392,154	26,585
Contributions--Local Units				
Townships	293,000	392,587	427,165	34,578
Charges for Services				
State Trunkline Maintenance	542,210	592,210	656,154	63,944
State Trunkline Non-Maintenance	30,000	10,000	8,242	(1,758)
Private Drive Snow Removal	5,638	5,638	8,685	3,047
Salvage Sales	1,500	2,500	2,970	470
Interest and Rents				
Interest Earned	4,000	4,850	4,963	113
Rent and Royalty	-	-	7,370	7,370
Other Revenue				
Contribution From Private Sources	212,133	41,061	41,060	(1)
Gain on Equipment Disposals	22,200	5,122	1,690	(3,432)
Total Operating Revenue	5,428,514	5,267,774	5,336,130	68,356
Other Financing Sources				
Proceeds From Installment Purchase Agreement	145,000	54,975	54,975	-
Total Other Financing Sources	145,000	54,975	54,975	-
Tot Financing Sources	5,573,514	5,322,749	<u>\$ 5,391,105</u>	<u>\$ 68,356</u>
Fund Balance--January 1, 2004	1,019,722	1,019,722		
Total Budget	<u>\$ 6,593,236</u>	<u>\$ 6,342,471</u>		

**DICKINSON COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL**  
**For the Year Ended December 31, 2004**

**EXHIBIT H**

	Original Amended Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction	\$ 99,240	\$ 1	-	\$ 1
Heavy Maintenance	928,375	1,133,903	\$ 1,117,696	16,207
Maintenance	700,000	723,300	721,931	1,369
Local Road				
Construction	110,400	7,464	6,696	768
Heavy Maintenance	600,000	1,137,655	1,131,811	5,844
Maintenance	800,000	1,046,978	1,020,749	26,229
Primary Road Structure				
Heavy Maintenance	2,000	804	452	352
Maintenance	2,000	-	-	-
Local Road Structure				
Heavy Maintenance	463,000	523,000	522,017	983
Maintenance	2,000	-	-	-
State Trunkline Maintenance	480,000	583,681	581,799	1,882
State Trunkline Non-Maintenance	20,000	10,000	8,242	1,758
Non Road Project	149,113	10,006	3,363	6,643
Private Snow Plowing	5,638	10,138	8,709	1,429
Equipment Expense--Net	(340,000)	(4,000)		
Direct			\$ 839,487	
Indirect			351,750	
Operating			200,311	
Less: Equipment Rentals			<u>(1,428,828)</u>	33,280
Distributive Expense	1,081,000	-		-
Administrative Expense--Net	249,200	311,670		
Administrative Expense			378,797	
Less: Handling Charges			-	
Overhead--State			(66,304)	
Overhead--Other			(3,149)	
Purchase Discounts			<u>(258)</u>	2,584
Capital Outlay--Net	(296,916)	(300,809)		
Capital Outlay			82,220	
Less: Depreciation Credits			(380,638)	
Equipment Retirements			<u>(3,432)</u>	1,041
Debt Service				
Principal Payments	417,723	418,123	418,121	2
Interest Expense	<u>54,470</u>	<u>54,795</u>	<u>54,765</u>	<u>30</u>
Total Expenditures	5,527,243	5,666,709	<u>\$ 5,566,307</u>	<u>\$ 100,402</u>
Fund Balance--December 31, 2004	<u>1,065,993</u>	<u>672,762</u>		
Total Budget	<u>\$ 6,593,236</u>	<u>\$ 6,339,471</u>		



**DICKINSON COUNTY ROAD COMMISSION  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Year Ended December 31, 2004**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$2,803,920	\$ 1,813,441	\$ 718,769	\$ 5,336,130
Total Expenditures	2,083,895	2,843,711	638,701	5,566,307
Excess of Revenues Over (Under) Expenditures	720,025	(1,030,270)	80,068	(230,177)
Other Financing Sources (Uses)				
Proceeds From Lease Purchase	54,975			54,975
Interfund Adjustment		375,600	(375,600)	-
Optional Transfers	(654,670)	654,670		-
Total Other Financing Sources (Uses)	(599,695)	1,030,270	(375,600)	54,975
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	120,330	-	(295,532)	(175,202)
Fund Balance--January 1, 2004	704,506	-	250,729	955,235
Fund Balance--December 31, 2004	\$ 824,836	\$ -	\$ (44,803)	\$ 780,033

**DICKINSON COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES**  
**For the Year Ended December 31, 2004**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Federal Grants				
Surface Transportation Program	\$ 84,740			\$ 84,740
Economic Development D Funds	95,728			95,728
High Priority		\$ 278		278
Highway Bridge Replacement	-	365,610		365,610
State Grants				
Michigan Transportation				
Engineering	7,300	2,700		10,000
Allocation	2,070,323	747,738		2,818,061
Urban	104,611	56,443		161,054
Snow Removal		13,704		13,704
Highway Bridge Replacement	-	68,552		68,552
Economic Development				
Rural Primary (D)	45,049			45,049
Forest (E)		122,901		122,901
Urban Area (F)	392,154			392,154
Contributions--Local Units				
Townships		427,165		427,165
Charges for Services				
State Trunkline Maintenance			\$ 656,154	656,154
State Trunkline Non-Maintenance			8,242	8,242
Private Drive Snow Removal			8,685	8,685
Salvage Sales			2,970	2,970
Interest and Rents				
Interest Earned	3,629		1,334	4,963
Rents and Royalty			7,370	7,370
Other Revenue				
Contribution From Private Sources		8,350	32,710	41,060
Gain on Equipment Disposal	386		1,304	1,690
Total Operating Revenue	2,803,920	1,813,441	718,769	5,336,130
Other Financing Sources				
Proceeds From Lease Installment	54,975			54,975
County Appropriation			-	-
Total Other Financing Sources	54,975	-	-	54,975
Total Revenue and Other Financing Sources	\$ 2,858,895	\$ 1,813,441	\$ 718,769	\$ 5,391,105

**DICKINSON COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended December 31, 2004**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 1,117,696			\$ 1,117,696
Maintenance	721,931			721,931
Local Road				
Construction		\$ 6,696		6,696
Heavy Maintenance		1,131,811		1,131,811
Maintenance		1,020,749		1,020,749
Primary Road Structures				
Heavy Maintenance	452			452
Local Road Structures				
Heavy Maintenance		522,017		522,017
State Trunkline Maintenance			\$ 581,799	581,799
State Trunkline Non-Maintenance			8,242	8,242
Non Road Project			3,363	3,363
Private Snow Plowing			8,709	8,709
Equipment Expense--Net (Per Exhibit H)	(9,622)	(20,858)	(6,800)	(37,280)
Administrative Expense--Net (Per Exhibit H)	125,790	183,296		309,086
Capital Outlay--Net (Per Exhibit H)	(4,794)		(297,056)	(301,850)
Debt Service				
Principal Payments	119,337		298,784	418,121
Interest Payments	13,105		41,660	54,765
Total Expenditures	\$ 2,083,895	\$ 2,843,711	\$ 638,701	\$ 5,566,307



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

May 26, 2005

Dickinson County Road Commission  
Board of County Road Commissioners  
1107 South Milwaukee Avenue  
P.O. Box 519  
Iron Mountain, Michigan 49801

RE: Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Dickinson County Road Commission, a component unit of Dickinson County, as of and for the year ended December 31, 2004, and have issued our report thereon dated May 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Dickinson County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Dickinson County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Dickinson County Board of Road Commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a stylized flourish at the end.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division